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March 19, 1996

U.S. Department of the Interior
Minerals Management Service
Royalty Management Program
Rules and Procedures Staff
P.O. Box 25165
Mail Stop 3101
Denver, CO 80225-0165

Attention: Mr. David S. Guzy
Chief, Rules and Procedures Staff

Gentlemen:

Texaco Inc. appreciates the opportunity to comment on the Minerals Management Service's (MMS) Advanced Notice of Proposed Rulemaking, entitled Valuation of Oil From Federal and Indian Leases (60 FR 65610, December 20, 1995).

Unfortunately, Texaco cannot offer detailed comments at this time due to the pendency of several lawsuits involving these issues on private and state leases. We believe it is inappropriate to litigate those cases in either a traditional or a negotiated rulemaking. However, given our strong interest in and respect for the rulemaking process and with the hope of facilitating that process despite existing constraints, Texaco offers the following brief comments.

Historical audit periods must be governed by existing regulations which incorporate the concept of posted prices into valuation standards. However, the Secretary, in his considerable discretion, may promulgate new regulations which utilize methodologies based on other criteria on a prospective basis only.

Texaco is gratified that the MMS has not rejected the use of posted prices out of hand but "seeks to improve oil valuation regarding the use of oil posted prices, including methods of determining "significant quantities." Despite blanket assertions by some royalty owners that posted prices may not represent market value, no finding has been made to that effect.

Any proposed regulations should properly establish the point of valuation for royalty purposes at the point of production or at the point where the crude is first in marketable condition. Valuation downstream of that point is contrary to federal lease terms and federal law.

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An arm's length sale not only demonstrates that the crude is in fact in marketable condition, but establishes a reasonable indicator of value in the field that should be clearly acceptable for royalty purposes.

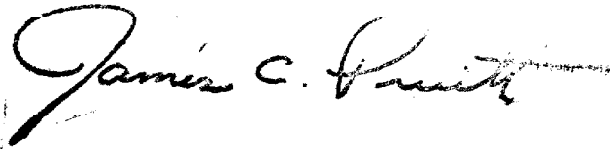
The new rules should not discriminate against the vertically integrated lessee. Standards of valuation should be applicable to all production and all lessees without regard to corporate structure.

The Advance Notice specifically solicits comments regarding the appropriate meaning of "significant quantities." Texaco suggests that the proper consideration is "representative quantities" which is dependant on the facts surrounding the production and marketing of any particular lease crude. Generally, Texaco submits that ten percent of a lessee's produced volume in any field or area should be acceptable. Texaco further submits that, as a maximum, the sale of an amount of crude equivalent to the MMS's royalty share should be acceptable *per se*, because it reflects the marketing opportunity which would have been available had the MMS taken its production in kind.

The Advance Notice of Proposed Rulemaking sets forth several goals which the MMS hopes to achieve with new rules. These include "an improved regulatory framework in which lease terms could be strictly enforced while requiring little or no extra information from lessees," and a rule that is "flexible enough to accommodate future oil marketing changes as much as possible to avoid ongoing rule modification." Texaco agrees and hopes that the MMS will achieve these goals in a manner consistent with the principles Texaco has set forth above.

We look forward to the opportunity to consider more specific valuation proposals as this rulemaking moves forward and hope to be able to offer more substantive comments at that time.

Sincerely,

A handwritten signature in black ink, appearing to read "James C. Smith". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

JCP:gah